

TESTIMONY BEFORE THE  
SUBCOMMITTEE ON REGULATIONS, HEALTHCARE AND TRADE  
HEARING ON "THE IMPACT OF ONLINE ADVERTISING ON SMALL FIRMS"  
SMALL BUSINESS COMMITTEE  
U.S. HOUSE OF REPRESENTATIVES  
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BY  
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Chairman Gonzalez, Ranking Member Westmoreland, and members of the Subcommittee – thank you very much for inviting me to testify on the impact of online advertising on small firms. I am the President and Chief Executive Officer of the Interactive Advertising Bureau (IAB), the trade association for ad-supported interactive media in the United States. IAB's more than 350 members account for about 86 percent of the interactive advertising sold in the U.S. Our members include the great names of the online and offline media world – Google, Yahoo, AOL, MSN, The New York Times, Time Inc., CBS, and Walt Disney among them. However, the majority of our members, 61 percent, are small businesses, earning less than \$1 million annually in advertising revenue, and employing fewer than 50 people.

#### I. SCOPE OF INTERACTIVE ADVERTISING

Last year, together, these publishers sold more than \$21 billion in interactive ads, according to research conducted for IAB by the consulting firm Price Waterhouse Coopers. To put that in perspective, that means that interactive, as an advertising medium, now is larger than outdoor, magazines, and radio.

Evidence suggests that much of this ad spending is coming from small businesses. Research by the consulting firm Booz & Co. for the IAB, the Association of National Advertisers, and the American Association of Advertising Agencies shows that 40 percent of IAB members' revenues comes from local businesses. Analyses by the trade publication Advertising Age shows that in 2007, the top 100 advertisers in the United States allocated 67 percent of their ad spending to television – nearly twice what they allocated to interactive advertising.

This will undoubtedly change, with marketers large and small continuing to devote more of their advertising budgets to interactive media. Several respected industry analysts, such as the Veronis Suhler Stevenson private equity firm, project that by the year 2011, interactive ad spending will reach \$62 billion annually, surpassing newspapers to become the largest advertising medium in this country.

Why is growth so robust? From an advertiser's perspective, there are probably two primary reasons. First, interactive is a medium that can do it all. Marketers have described the process of attracting and retaining consumers with an image they call “the purchase funnel.” At the top of this funnel is the need to generate awareness, for which purpose marketers traditionally turned to mass media like broadcast television and national magazines. After awareness, they want consumers to consider their product, and then to try the product. These typically would involve more specialized media – an automotive magazine, say, or a coupon offering 25 percent off this week only. Then, to generate loyalty among people who have purchased their products, marketers will turn to direct mail, loyalty programs, and customer-relationship management system.

In interactive, one medium, one distribution channel, can fulfill these multiple needs. If an ad makes a consumer aware of something in which he or she is interested, with one click the consumer can literally reach into that ad to learn more about the product or service. Another click will allow him or her to download a brochure. Another click might elicit a trial coupon.

Equally important is the range of creative opportunities available to advertisers in interactive media. To me, the most miraculous aspect of the interactive medium is that it can combine all media, at costs a fraction of those incurred when using offline media. Virtually any Web site can offer its advertisers digital video, audio podcasts, vivid display advertising, or direct-marketing loyalty programs – and it can distribute them around the block, or across the country. Thus, video advertising is now accessible to advertisers who cannot afford broadcast television; and photographically gorgeous displays ads are now obtainable by marketers who could never afford to advertise in national magazines.

This ability to engage with consumers at every step of the purchase funnel is a major factor in advertisers’ attraction to the digital media. Neil Ashe, the CEO of IAB member company CNET, calls interactive “the ‘yes’ medium.” Can it generate awareness? Yes. Can it promote preference? Yes. Can it induce trial? Yes.

The second reason for advertisers’ attraction to interactive is their ability to measure their return on investment. Perhaps the most famous criticism of conventional advertising was levied a century ago by Philadelphia department store magnate John Wanamaker, who said: “I know I waste half the money I spend on advertising; the problem is, I don’t know which half.” Yet because interactive media promote ongoing, two-way engagement among consumers, their media, and the advertising, it generates data on consumer interests, needs, and consumption patterns that makes advertising effectiveness far easier to measure. Because of interactive media, marketing can now be a full participant in the productivity revolution that has swept other areas of American business, and has allowed us to maintain our competitive position in the world economy.

The most important reason for the growth of interactive media and advertising is consumers. They like it – and they like it because, when done right, it is relevant to them. Consider **paid search advertising**, one of the most revolutionary tools in the history of

marketing. Paid search advertising is like a Yellow Pages ad with a door in it. It's delivered next to the results of searches you have made, so it's directly relevant to your expressed interests. If you happen to be "in market" for a car, and you've just searched for "Ford hybrids," what could be more pertinent than ads to the right of your search results from dealers near you that carry these vehicles?

Another marketing tool – equally revolutionary – is **search engine optimization (SEO)**. This is the process of designing Web sites' visuals and language to improve their position in search results, and thus the traffic that comes from those search results. For established marketers, SEO spending generally has come from public relations budgets, as has company Web site development itself. Many free tools and guides exist to help marketers with SEO: A search on MSN elicited more than 37 million results. Together, paid search and SEO is revolutionizing marketing for businesses large and small.

Another ground-breaking marketing tool is **contextual advertising**. It's always existed, of course; an ad for a local dry-cleaner in a local newspaper is contextual. But because there are few barriers to entry in interactive media, context and location can be refined to degrees of specificity undreamed of – and economically impossible – in offline media. Thus, there has been a proliferation of sites tailored to all manner of peoples' passions, with ads similarly aimed at their interests.

Interactive tools also allow advertisers to deliver advertising directed to a consumer's expressed interests. That's called **behavioral advertising**. If you've been researching Florida vacation spots, for example, you will receive relevant ads for resorts, airfare discounts, or restaurants, even after you've moved to sites not directly related to travel. Behavioral advertising, contextual advertising, and search advertising all are central to enhanced relevancy of interactive advertising.

## II. CONSUMER BENEFITS OF INTERNET ADVERTISING

Interactive advertising provides consumers with significant benefits in the form of cost-free access to content and services. Interactive advertising underwrites:

- *Quality online content (news, business, entertainment, maps)*. The majority of news-publishing firms have abandoned paid subscriptions and moved to business models whereby online advertising allows them to provide free content to millions of readers, unbounded by geographical constraints. However, online culture of "free" often outshines the reality that sustainable free content for the user has never been—and cannot be—really free. Content and service products are costly and time consuming to create and maintain, and if not subsidized by subscriptions, require alternative forms of monetization, the chief of which at present is advertising revenue. The centrality of this value exchange is fundamental to the success of today's internet.

- *Education and information-gathering tools*, including search engines, have unquestionably democratized the availability and accessibility of educational content. Hundreds of millions of consumers perform billions of searches through search engines annually. The largest search engines on the Internet are free to users and supported almost exclusively by advertising.
- *Communications and other online services* (for example, e-mail, chat and telephone services; resume services and job banks; enhanced classified services; video and photo storage and sharing) depend on advertising for their revenue. The example of video sharing illustrates this point: In November 2007, 138 million Americans (over 75 percent of U.S. Internet users) watched almost 9.5 billion videos online, all for free, because of advertising. Email is another example that highlights this exchange: There are an estimated one billion users of free, ad-supported email services in the world today. Then there's self-expression: There are more than 112 million blogs worldwide, providing every Internet user a free outlet to voice their opinion and create useful content for others; in the U.S., as of July 2006, some 12 million American adults – about eight percent of the American population – were publishing their own blogs, which were being read by 57 million others, according to the Pew Internet & American Life Project..
- *Social networking and professional networking environments*. Free social networking and online-networking sites alone had more than 86.6 million users as of December 2007, according to Nielsen Online. Most of these sites are ad-supported.
- *Online safety tools*, such as anti-spam and antivirus protection.
- *Competitive pricing and product comparison tools*.

### III. SMALL BUSINESS BENEFITS OF ONLINE ADVERTISING

As I suggested before, the 20 to 30 percent year-on-year growth that the interactive advertising has been experiencing for the past several years has been fueled by the recognition that consumers are spending more and more of their time with digital media. The consumer benefits have also created benefits for business, with a disproportionately positive impact on small businesses.

Thousands of businesses of all sizes have achieved more efficient marketing of goods and services through targeted online advertising. According to Pew, 32 million American adults have used online classified ads for selling or buying. Online advertising has created regional markets out of local markets, and national markets out of regional markets. Items once sold in local garage sales and pawn shops are now available nationally and internationally via advertised interactive auctions, in which some 40 million Americans participate annually. eBay, the best known auction site, says more

than 768,000 small businesses across the U.S. use this online marketplace as their primary or secondary marketing channel. More than 1.3 million people supplement their income by selling materials on eBay.

Around this enormous market of small, consumer-facing companies and business-to-business providers has grown a vast ecosystem of small service providers. A Web search on “search engine optimization agencies” garners 586,000 responses. “Web hosting services” elicits 21 million possibilities – 312,000 of them in Long Island, where I live.

There are also the small interactive publishers – the men and women across the U.S. who have turned their passions into ad-supported content sites for niche audiences. In its testimony at the Federal Trade Commission’s November 2007 “town hall,” IAB highlighted the experience of one such site, askthebuilder.com in Cincinnati, Ohio. It was founded and remains solely owned and operated by Tim Carter, a former contractor, who more than quadrupled his earnings in his first year publishing an advertising-supported web site. We are proud to join Mr. Carter on the panel today.

These small sites exist in large part because of **online advertising networks** consisting of hundreds, thousands, even tens of thousands of independently-owned sites. These networks are the internet version of the broadcast radio and television networks with which we grew up; they have technological infrastructures that can get contextual and behavioral advertising and ad revenue to these small sites, wherever they are located, just as the offline networks guided ad revenue to local affiliates. There is, however, one crucial difference: Instead of delivering the same programming – and for the most part the same ads from the same giant marketers -- at the same time across groups of local affiliates, online networks allow myriad voices to flourish, serving myriad interests and needs, in the tiniest nooks and crannies of our culture.

These small publishers represented by online networks are often called “the long tail” of the Internet. Along with the advertising innovations I noted earlier, this “long tail” represents a remarkable change in the business environment: These thousands of small sites and the marketing services that infuse them enable small businesses of all sorts to flourish anywhere and everywhere.

Statisticians have long known that some markets were characterized by “long tail” economics. As explained in Wikipedia, the distribution and inventory costs of some businesses allow them to realize significant profits out of selling small volumes of hard-to-find items to many customers, instead of only selling large volumes of a reduced number of popular items. The group of persons that buy the hard-to-find or “non-hit” items is the customer demographic called the Long Tail.

As you might imagine, running such a business is hard. First, you have to find your long tail market. Second, you have to communicate to it. Third, you have to deliver goods to it. This could be expensive and lonely in a country as large as ours, where national television is prohibitively expensive, direct mail a costly and risky venture, and specialty magazines usually quite limited in their reach.

Enter the Internet – where anyone with an enthusiasm can create a Web site, offer niche content, and carry segmented ads, with the applications already available on their laptop computers or online.

The tools and services I mentioned earlier – search engines, contextual advertising, behavioral advertising, multiple creative formats, and online networks -- are the enablers that have made this long tail of small publishing businesses a boon to an equally long tail of consumer-facing marketing businesses. As Wired magazine editor Chris Anderson describes it, “New efficiencies in distribution, manufacturing, and marketing [are] changing the definition of what [is] commercially viable across the board... The story of the Long Tail is really about the economics of abundance – what happens when the bottlenecks that stand between supply and demand in our culture start to disappear, and everything becomes available to everyone.”

This is not fanciful Silicon Valley theory; it is established, invigorating fact. Take the landscape of small publishers and their audiences. No one knows how many there are in the U.S., but here’s a sample gathered by the ThinkPanmure equity research firm. The 24/7 Real Media network sells and places ads for 1,000 Web sites. The Blue Lithium Network, owned by Yahoo, reaches 119 million unique U.S. users through 1,000 publisher sites. Burst Media has 4,200 ad-supported sites in its network. Tacoda, a network acquired last year by AOL, delivers behavioral ads to half the U.S. population, across 4,500 sites. The Adbrite auction-based ad marketplace represents 19,000 Web publishers.

In contrast, the National Association of Broadcasters last year numbered 1170 television stations – the majority affiliated with one-size-fits-all broadcast networks. The long tail Web publishers, with the businesses they help support through the advertising they carry, represent the real diversity of America.

Importantly, the online networks not only enable small businesses to communicate to niche communities through small sites; they allow large brand marketers to reach narrow communities as well, contributing to an unprecedented democratization of the media landscape.

How diverse are these publishers? We don’t have a census of the whole, so anecdote evidence will have to suffice. I asked my IAB team and some of the networks among our membership for examples of their favorite small, ad-supported publishers. Interestingly, many of them are mothers who are using interactive tools and services to develop home-based businesses around their passions. Here are a few examples:

- **Baristanet.com** is a community site started by three local women for the area of northern New Jersey where I grew up. Its advertisers include a local hospital, Montclair Family Dentistry, and Dial Pest Control of Roseland.

- **Dooce.com** is a blog started by a stay-at-home mother in Salt Lake City, who was the valedictorian of the Class of 1993 at Bartlett High School in Memphis, Tennessee. She carries ads from the Disney Vacation Club and Verizon.
- **Bakeorbreak.com** is run by a woman in northeast Mississippi, who subtitles her Web publication “Adventures of an Amateur Baker.” It’s filled with recipes, sells cookbooks, and carries ads for M&M’s, Perdue chicken, and Bertolli olive oil. Some of those ads are sold by Martha Stewart Living Omnimedia, an example of the growing symbiosis between small and large publishers on the Web.
- Here are three political sites that cover the spectrum of opinion. Many of you know **Dailykos.com**, the famous liberal political blog; look closely, and you’ll see that it’s supported by ads, many of them placed by the Google AdSense network, from PBS, the online t-shirt maker Café Press, and others. **Latino Issues**, by contrast, is a conservative Latino blog, with some ads also sold by Google. Its advertisers include the dating service LatinoAmericanCupid.com. And **Confederate Yankee** is an ad-supported site, via the Pajama Network, that’s a hybrid of conservative and liberal, Northeast and Southeast sentiments and values: Advertisers include Omaha Steaks and FTD, the floral company.
- **Womenslacrosse.com** is the central meeting place for women who participate in the oldest American sport. It’s a family business run by founder and CEO Cathy Samaras of Annapolis, Maryland, and its advertisers include the Kaplan test preparation company, and the Bowie Baysox Class AA minor league baseball team.
- **Scienceblogs.com** is a collection of 90 ad-supported science sites covering fields from neurophilosophy to quantum mechanics to tetrapod zoology. Its offices are in LA, Washington, New York, London, Munich, and Shanghai, but its bloggers come from all over: Iowa, Colorado, Massachusetts, New Jersey, and Virginia, among other places. Its advertisers include PerkinElmer and Dow Chemical.
- **AfricanSisters.com** was formed in 1999 in Garland, Texas by a group of black women to help women of color build businesses, increase employment and build revenue. Its advertisers include the iGourmet.com “tea-of-the-month club,” Crockpot cookery, and Kmart.

This is just a tiny sample of the breadth of the diversity of publishers. I suggest trying this exercise yourself: Go on to your favorite search engine, and plug in any phrase that might describe a passion, a hobby, an interest group, or a constituency. As you surf through the results, you will find many examples of ad-supported interactive publishers and small retailers serving these microscopic communities. They are in every state; they are probably in all 435 Congressional districts, and they exist because advertising supports free Web design, distribution, and marketing services.

#### IV. THE IMPORTANCE OF NOT OVER REGULATING THE INTERNET

This rich, diverse, and competitive marketplace is the backdrop against which Congress should weigh any policy questions with respect to this marketplace.

I believe it's vital that our Government's leaders understand the importance of this interactive marketing and media ecosystem to small business development across the United States. A small but vocal coterie of forces opposed generally to marketing, advertising, and open media markets is attempting to advocate to limit the technology responsible for this internet advertising revolution.

Although these advocacy groups have provided no evidence of public harm, their efforts have begun resulting in regulatory proposals which, if enacted, would severely hinder the ability of small publishers to support themselves with advertising sales, and impair the ability of small businesses to use interactive advertising to market themselves.

The most unfortunate aspect of these proposals is that they are utterly unnecessary. The IAB and its members vigorously support the principle of consumer control over their media consumption. Indeed, consumer control is one of the fundamental reasons interactive media have grown so quickly in popularity. And consumers have all the tools they need to control all forms of data collection in online media and advertising.

Every Internet user already has a robust opt out tool at their disposal: Through their Web browsers, they are able to block cookies before they are downloaded. Moreover, web browser filters allow the user to choose their desired level of blocking, whereby they can block all cookies, block only third-party cookies, or be notified each and every time before a cookie is placed (thereby making a case-by-case decision). Existing consumer controls located in the browser are particularly effective in this arena. One recent study showed that as many as 42 percent of Internet users cleaned out their cookies weekly. This type of tool along with tools that will be developed in the future provide the best means of consumer control over the totality of their Internet experience.

Thank you for considering the views of IAB on these issues. The success of the Internet has helped fuel this country's economy and it is important to ensure that this medium can continue to grow and thrive. No segment of our economy will reap greater benefits from a robust internet advertising industry than small businesses.